

Message Text

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ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 AID-20 CIAE-00 EB-11 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SP-03

CIEP-02 LAB-06 SIL-01 OMB-01 NSC-07 SS-20 STR-08

CEA-02 PA-04 PRS-01 USIA-15 DRC-01 /171 W

----- 105234

R 051905Z APR 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 9396

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDOC WASHDC

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DEPARTMENT PASS TREASURY AND FRB

E.O. 11652:N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS - WEEK ENDING APRIL 5

BEGIN SUMMARY: THE POUND REMAINED VIRTUALLY UNCHANGED
AGAINST THE DOLLAR THIS WEEK, CLOSING ON THURSDAY (APRIL
4) AT \$2.3935. HOWEVER, AGAINST OTHER MAJOR CURRENCIES
THE POUND CONTINUED TO STRENGTHEN AND THE EFFECTIVE DEVAL-
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UATION NARROWED TO 16.51 PERCENT. GOLD REACHED ANOTHER

NEW HIGH OF \$179.50 ON WEDNESDAY (APRIL 3) BUT FELL BACK

ON THURSDAY TO CLOSE \$3 DOWN AT \$176.50. THE BANK OF ENGLAND MOVED ON THURSDAY (APRIL 4) TO EASE PRESSURE ON UK INTEREST RATES BY RELEASING A FURTHER 1 PERCENT OF SPECIAL DEPOSITS. UK OFFICIAL RESERVES ROSE BY \$478 MILLION DURING MARCH TO STAND AT \$6,444 MILLION AT THE END OF THE MONTH. NEW INSTALMENT CREDIT EXTENDED BY RETAILERS AND FINANCE HOUSES IN FEBRUARY FELL FOR THE FOURTH MONTH IN A ROW. THE LATEST FINANCIAL TIMES MONTHLY SURVEY OF BUSINESS OPINION INDICATES THAT THE BUDGET HAS INCREASED INDUSTRIES' FEARS OF A MAJOR SQUEEZE ON CORPORATE LIQUIDITY. END SUMMARY

1. THE POUND REACHED ITS LOW FOR THE WEEK ON THURSDAY (APRIL 4) WHEN IT CLOSED AT \$2.3935, DOWN 75 POINTS FROM LAST THURSDAY'S CLOSE. THE HIGH FOR THE WEEK VIS-A-VIS THE DOLLAR WAS \$2.40 ON WEDNESDAY (APRIL 3). STERLING CONTINUED TO STRENGTHEN AGAINST OTHER MAJOR CURRENCIES AND THE WEIGHTED DEPRECIATION AGAINST SMITHSONIAN RATES NARROWED TO 16.51 PERCENT ON THURSDAY, ITS BEST LEVEL SINCE AUGUST 16, 1973. GOLD ROSE STEADILY THIS WEEK REACHING \$179.50 ON WEDNESDAY (APRIL 3) BUT FELL BACK TO \$176.50 ON THURSDAY, UP \$3 ON LAST THURSDAY'S CLOSE.

2. THE BANK OF ENGLAND MOVED ON APRIL 4 TO EASE PRESSURE ON INTEREST RATES BY REDUCING THE PROPORTION OF ELIGIBLE LIABILITIES HELD AS SPECIAL DEPOSITS BY 1 PERCENT TO 3.5 PERCENT. ABOUT 300 MILLION POUNDS OF SPECIAL DEPOSITS WILL BE HANDED BACK TO THE BANKS IN TWO EQUAL STAGES - ON APRIL 8 AND APRIL 16. THE BANK OF ENGLAND SAID THAT THE MOVE WAS INTENDED TO RELIEVE THE PRESSURE ON BANK RESERVE ASSET RATIOS, AND WOULD "FACILITATE SOME REDUCTION IN MONEY MARKET INTEREST RATES, WHICH ARE UNDESIRABLY HIGH FOR DOMESTIC PURPOSES AND ALSO HIGH IN RELATION TO COMPARABLE OVERSEAS RATES." IN FACT, THE MINIMUM LENDING RATE FELL BY 1/4 PERCENT TO 12-1/4 PERCENT ON FRIDAY, APRIL 5. THE EASING OF INTEREST RATE PRESSURES HAS OBVIOUS RELEVANCE TO THE LIQUIDITY STRAINS ON INDUSTRY AS IT RECOVERS FROM THE 3-DAY WEEK AND TO CALLS ON BANK FINANCE AS INVENTORIES

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ARE REBUILT.

3. UK RESERVES ROSE BY \$478 MILLION IN MARCH TO A TOTAL OF \$6,444 MILLION WITH A CONTRIBUTION OF \$682 MILLION FROM PUBLIC SECTOR BORROWING UNDER THE EXCHANGE COVER SCHEME INTRODUCED IN MARCH 1973. TO DATE, \$3.2 BILLION HAS BEEN BORROWED. IN POUNDS, TOTAL RESERVES EQUAL 2,226 MILLION POUNDS IF CONVERTED AT THE PARITY RATE OF 1 POUND

EQUALS \$2.89524 OR 2,691 MILLION POUNDS IF CONVERTED AT
THE CLOSING MARKET RATE ON MARCH 29 OF 1 POUND EQUALS
\$2.3945.

4. NEW INSTALMENT CREDIT EXTENDED BY RETAILERS AND FINANCE
HOUSES AMOUNTED TO 188 MILLION POUNDS (S.A.) IN FEBRUARY.
THIS FURTHER DROP IN INSTALMENT CREDIT INDICATES THE
EFFECTS OF MR. BARBER'S INTRODUCTION OF HIRE PURCHASE
RESTRICTIONS IN DECEMBER 1973. NEW CREDIT EXTENDED
DROPPED 17 PERCENT BELOW THE LEVEL OF THE PREVIOUS THREE
MONTHS - SEPTEMBER TO NOVEMBER 1973. OTHER THINGS
AFFECTING THE REDUCTION INCLUDE THE OIL SITUATION,
ELECTRICITY RESTRICTION AND EFFECTS ON THE THREE-DAY WEEK
DURING FEBRUARY.

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5. EVEN BEFORE THE BUDGET, BUSINESS CONFIDENCE, ACCORDING TO THE FT MONTHLY SURVEY, HAD DROPPED TO ITS LOWEST LEVEL SINCE THE SURVEYS WERE BEGUN SEVEN YEARS AGO. MANY BUSINESSMEN WERE CONCERNED ABOUT THE ADVERSE CASH FLOW EFFECTS OF RISING COSTS, SHRINKING MARGINS, AND THE PROSPECT OF LITTLE OR NO INCREASE IN SALES THIS YEAR. THE "SURCHARGE" ON ADVANCE CORPORATION TAX AND THE LARGER-THAN-EXPECTED UNCLASSIFIED

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INCREASE IN EMPLOYERS' NATIONAL INSURANCE CONTRIBUTION ANNOUNCED IN THE BUDGET SERVED TO DEEPEN ANXIETIES.

6. THE FORWARD DISCOUNTS ON STERLING NARROWED DURING THE WEEK AT ONE MONTH AND THREE MONTHS, BUT WIDENED ON WEDNESDAY (APRIL 3) AT SIX MONTHS BEFORE NARROWING SHARPLY ON THURSDAY (APRIL 4).

	3/28	4/4	CHANGE
1 MONTH	1.80	1.47-1/2	DOWN 0.32-1/2
3 MONTHS	5.05	4.92	DOWN 0.13
6 MONTHS	9.77-1/2	9.70	DOWN 0.07-1/2

(ALL FIGURES IN CENTS)

7. LOCAL AUTHORITY DEPOSIT RATES MOVED STEADILY DOWNWARD ALL WEEK.

	3/28	4/4	CHANGE
1 MONTH	15-13/16	13-15/16	DOWN 1-7/8
3 MONTHS	16-1/16	14-11/16	DOWN 1-3/8
6 MONTHS	15-5/8	14-5/8	DOWN 1

8. EURODOLLAR RATES ROSE AND FELL AT ONE MONTH, MOVED DOWNWARD AT THREE MONTHS, AND REMAINED RELATIVELY UNCHANGED AT SIX MONTHS.

	3/28	4/4	CHANGE
1 MONTH	9-7/8	9-11/16	DOWN 3/16
3 MONTHS	9-7/8	9-13/16	DOWN 1/16
6 MONTHS	9-7/8	9-7/8	UNCHANGED

9. THE MINIMUM LENDING RATE WAS REDUCED BY 1/4 PERCENT TO 12-1/4 PERCENT ON FRIDAY, APRIL 5.

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TAGS: ECON, UK
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